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Current Support Brief

CIA/RR CB 62-53

No. Pages 11
30 August 1962
Copy No. 135

INDUSTRIAL PRODUCTION IN COMMUNIST CHINA: A REAPPRAISAL



CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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INDUSTRIAL PRODUCTION IN COMMUNIST CHINA: A REAPPRAISAL

"The 1960 national economic plan is a plan for continued leap forward... . Successful fulfillment of the plan will make it possible for us to catch up with and overtake Britain in the output of major industrial products in less than 10 years... ."

--Li Fu-chun, 30 March 1960

"The Chinese people are soberly aware that our country is still poor and backward and that it will take several decades of hard work to turn China into an advanced, prosperous, and strong socialist country."

--Chen Yi, 30 April 1962

1. The Decline Since the "Leap Forward"

Although it is still impossible to measure precisely the extent of the decline in industrial production in Communist China since the summer of 1960, enough evidence has accumulated to suggest the tentative conclusion that production in 1961 and early 1962 had fallen to roughly half the peak rate achieved in late 1959 and early 1960. The evidence suggests that current output may be no more than in 1957 -- the last year of the First Five Year Plan (1953-57) -- and that most of the gains achieved during the "leap forward" era of 1958-60 have been lost. Capacity, however, is much larger now in nearly all industries, even though much of it is idle.

The general decline in output has not affected all industrial sectors uniformly. Production in some basic industries probably has remained above the levels of output in 1957, whereas production in the more complex sectors and in the textile industry has dropped below that in 1957.

By now, most of the excesses of the "leap forward" have been eliminated, much equipment has been renovated, and rational standards of factory operation have been restored. Party officials, though reluctant to give up

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real authority, are paying greater attention to the views of technicians. Production tends to be concentrated in the well-established and efficient producers, with the result that the older industrial areas, such as Manchuria, have been affected least. Much of the new capacity built during the "leap forward" has been idled. In particular, most of the "small modern" plants that proliferated in 1959 and 1960 are believed to have shut down.

In the steel industry, there is reliable evidence that the Anshan steel combine (Communist China's largest and oldest) is operating at a level that represents a considerable percentage of its designed rated capacity of 5.5 million metric tons of crude steel. On the other hand, the new Wuhan steel combine, where finishing facilities are incomplete, is reported by travelers to be operating at only one-third of its crude steel capacity.

Within the machinery industry, sporadic production activity reported for some plants probably is characteristic of the industry as a whole. The situation of the Wuhan Heavy Machine Tool Plant probably is typical.

25X1 [redacted] this plant has been ordered to concentrate on repair work and on producing spare parts. [redacted]

25X1 [redacted] production of the entire range of transportation equipment -- railroad rolling stock, trucks, transport aircraft, and merchant ships -- seems to be small or negligible. An exception to the general trend is production of farm tools and equipment, which is at higher levels than that of most types of machinery.

Information of the type that bears directly on industrial activities in the past 2 years is still very fragmentary, and it would be difficult to generalize from this type of production information alone. When this information is considered along with evidence that has been accumulating on consuming sectors of the economy (households, investment, and government), however, a very general picture of the level of industrial production for 1961 emerges.

The approximate level of household consumption, for example, may be derived from an examination of data on food and cloth rations and information on supplies of other consumer goods. Information on the volume of investment since 1960 is less satisfactory, but a general impression of the level of activity can be reached on the

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basis both of numerous observations of construction projects and of data on Chinese Communist imports of investment goods, including imports from the USSR.

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The available evidence on the consumption of industrial products in 1961, supplemented by fragmentary reports on production, imply that the level of output in both light and heavy industry in 1961 fell roughly to the 1957 level. Production trends from 1957 to 1961 are indicated in Table 1.

Table 1

Indexes of Industrial Production in Communist China
1957-61

1957 = 100

Type of Industry	1957 Value-Added Weights	1957	1958	1959	Peak Output, Mid-1959 to Mid-1960	1961 Estimates
Heavy	57	100	166	220	259	About 100
Light	43	100	123	142	140	About 100
Total	<u>100</u>	100	147	186	208	About 100

The basis for the estimates of light and heavy industrial production in 1961 is presented in the following paragraphs.

For light industry an index of production for 1961 has been estimated by examining consumption trends in four branches of light industry. These estimates, which are meant to be suggestive of general levels only and not precise figures, are shown in Table 2.

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Table 2

Indexes of Production in Light Industry
in Communist China
1957-59 and 1961

1957 = 100					
<u>Branch of Light Industry</u>	<u>1957 Value- Added Weights</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1961</u>
Textiles and clothing	39.6	100	124	153	70 <u>a/</u>
Paper and printing	10.8	100	148	172	100 <u>b/</u>
Food, beverages, and tobacco	26.8	100	116	127	110 <u>c/</u>
Other consumer goods <u>d/</u>	22.8	100	117	125	125 <u>e/</u>
Total	<u>100.0</u>	100	123	142	96 <u>f/</u>

a. Derived from data on rations and exports.

b. Reductions in the size of newspapers and in the circulation of newspapers and magazines suggest a sharp cutback in this category.

c. The food processing industry is believed to have produced a little more in 1961 than in 1957, even though agricultural output probably was no larger. The industry has expanded considerably since 1957, and urban needs for processed foodstuffs are greater. These considerations suggest that the proportion of farm output processed off the farm was higher in 1961 than in 1957.

d. Including furniture and fixtures, hardware, leather and rubber products, soap and cosmetics, pottery and earthenware, glassware and mirrors, and matches.

e. In spite of indications of some shortages, production of "other consumer goods" as a whole probably was higher in 1961 than in 1957. Consumers, being limited in their purchases of foodstuffs and clothing, probably spent a higher proportion of their earnings on "other" goods. (It is assumed that the total wage bill and hence the purchasing power was not less than in 1957.)

f. No great precision can be attached to the over-all index, which was calculated by adding the 1961 indexes of the four branches of light industry listed, on the basis of their 1957 value-added weights.

Production in heavy industry for 1961 is estimated by comparing the chief uses of heavy industrial products in 1957 with those in 1961. The 1957 pattern was calculated from

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official data, which are fairly reliable and extensive for that year. This pattern of uses, with comments on the comparable situation for 1961, is set forth in Table 3.

Table 3

Users of Heavy Industrial Products in Communist China

Billion 1957 Yuan a/		
<u>Users</u>	<u>1957</u>	<u>Comments on the Situation in 1961</u>
Heavy industry	10.18	Heavy industry consumed about 35 percent of its own output in 1957. This proportion probably increased during the "leap forward," when there was greater inefficiency and waste, but it probably fell back in 1961 as a result of efforts to revert to 1957 standards of efficiency.
Light industry	3.62	Allocations of heavy industrial products to light industry include chiefly fuels, electric power, forestry products, chemicals such as dyes, and other raw materials. There has been no significant change in 1961 compared with 1957.
Transportation	0.90	Chiefly fuels. The importance of modern transportation in the economy and its requirement for fuels is believed to have increased.
Peasants and collective farms	0.77	Fertilizers, insecticides, farm tools, and construction materials; much higher than in 1957.
Household consumers	1.67	Utilities, bicycles, radios, and such items; somewhat higher than in 1957, for the urban population was larger and the money demand for these goods was higher.

a. Yuan values may be converted to US dollars at a rate of exchange of 2.46 yuan to US \$1. This rate does not necessarily reflect the value of yuan in terms of dollars.

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<u>Users</u>	<u>1957</u>	<u>Comments on the Situation in 1961</u>
Exports	1.00	Minerals and metals; the same as or less than in 1957.
Government	1.76	Chiefly munitions; much less than in 1957.
Addition to inventory	0.70	Strict fiscal policies that were instituted starting late in 1960, including measures to reduce inventories, suggest that this item should have been zero or negative in 1961.
State investment	8.62	<p>Considerable uncertainty exists about the 1961 level of state investment, which in 1957 was the single largest user of heavy industrial products (except for heavy industry itself). Investment in 1961 clearly was not negligible. It could well have been less than in 1957, but a level much above 1957 would not be consistent with information presently available. [redacted] have given the impression that the investment program in 1961 was sharply curtailed. This condition was particularly true in such fields as transportation, light industry, and most heavy industry, where considerable idle capacity existed and new investment probably was small. The impressions [redacted] are supported by foreign trade data, which indicate that imports of machinery and equipment (almost all of which are investment goods for transportation and heavy industry) declined from US \$630 million in 1957 and \$900 million in 1960 to \$275 million in 1961. The volume of</p>

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<u>Users</u>	<u>1957</u>	<u>Comments on the Situation in 1961</u>
		<p>construction in 1961 was certainly small in comparison with the huge programs of 1958-60, but the relation to 1957 is less clear. In some fields, declines well below the 1957 level probably occurred, but in other fields -- notably agriculture, industries supporting agriculture, and mining -- a level of investment at or somewhat above the 1957 level might have been sustained. An unusually large item in 1961 was renovation and major repairs, on which 1.0 billion yuan are estimated to have been spent in 1957.</p>
Total allocations	29.22	<p>The sum of general impressions about 1961 uses of heavy industrial products is that the total was not greatly different from 1957. Decreases in allocations to government and inventory were offset or perhaps more than offset by increased allocations to agriculture, transportation, and household consumers. Allocations to light industry and exports remained about the same. Allocations to investment may have been about the same or somewhat less. The results of these comparisons suggest that production in heavy industry in 1961 fell within a range of 90 to 120 percent of 1957.</p>

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2. The Present

Fragmentary evidence available for 1962 indicates that the level of activity in industry has not changed greatly from the low level reached in 1961. [REDACTED] are reinforced by statements made at the National Peoples Congress in March-April 1962 that the 1961 policies to re-trench and rationalize industry and to restrict investment should be continued throughout 1962.

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Unemployment appears to be a mounting problem, not only because additional factories are closing down but also because many enterprises and construction projects that curtailed operations in 1961 did not complete laying off workers until early in 1962. Although some new plant closures have been reported, it should be noted that most such reports have come from South China, which has experienced an unusual degree of economic and social disorder in 1962 and which is not a major industrial area.

Some of the major industrial centers to the north may not be as inactive as Shanghai, Wuhan, and Canton [REDACTED]

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[REDACTED] Evidence has become available on steel and electric power installations in some areas of Communist China that indicates that these facilities might have been operating at about the 1958 level in the spring of 1962. Although it is difficult to draw general conclusions from these new data, they tend to balance the suggestion [REDACTED] that the industrial slump is deepening in 1962.

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Production in light industry during the first half of 1962 may have registered a small decline compared with 1961, on the basis of consumption trends. No change has been evident in supplies of processed food and textiles, which make up two-thirds, by value, of light industrial production in Communist China, but rising prices imply that production of other consumer goods has declined.

3. The Future

The Chinese Communists themselves are not optimistic for the short run. [REDACTED]

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[REDACTED] Chinese officials frequently referred to present difficulties and mentioned that they anticipated "several years" of retrenchment and consolidation.

Prospects for resuming rapid industrial growth over the

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next few years are not bright, if only because the depressed agricultural situation colors the entire economic outlook. Recovery in light industry is directly dependent on agriculture, the source of most of its raw materials. Immediate prospects for heavy industry also are poor, but the reasons are more complex. Major problems for heavy industry include (a) the leadership drift in Peiping, (b) financial problems stemming from the food crisis, (c) a structural imbalance within heavy industry, and (d) technological limitations.

The heavy industrial objectives of early 1960 (cited in the Li Fu-chun quote above) clearly cannot be attained with present capabilities, but there is no evidence that the Peiping leadership has devised new realistic goals. Instead, Peiping seems to be drifting in its industrial policies, perhaps because it is preoccupied with political problems and the food supply. Certainly the paramount importance of increasing the food supply currently places severe financial limitations on the import of equipment, spare parts, and raw materials for heavy industry.

Aside from these external problems, heavy industry in Communist China today is marked by two major internal deficiencies. Industry has relatively greater capability at present to produce primary and intermediate products such as crude steel and cement than finished goods such as trucks and aircraft. As a result, its potential product mix is better suited for a very large construction program than for present-day requirements of the economy. This imbalance also tends to impede recovery, for with excess capacity existing in many industries, no great expansion is needed soon in investment and therefore in production of investment goods. Finally, the technical and managerial capabilities of many larger industries in Communist China are limited, being reflected in difficulties experienced in repairing and maintaining complex equipment, in operating smoothly large industrial combines, and in design work.

Deficiencies that are internal to industry are less of a barrier to recovery than factors outside industry. A fairly rational leadership and an adequate food supply are prerequisite to industrial recovery, but given these factors, internal deficiencies can be partly overcome. In spite of defects, Chinese Communist industry probably has enough plant and equipment and trained personnel to produce substantially more economically useful products than the present output. Moreover, some technical difficulties probably could be minimized if China were to turn to Japan and Western

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Europe for large-scale technical support.

Nevertheless, any new industrial program that relies mainly on domestic capabilities is bound to have different goals for the short and medium run, a different structure, and a lower technological level than the program planned before mid-1960 with help from the Soviet Bloc. In the Soviet-sponsored program, Peiping accepted a high degree of dependence on the Bloc, especially for research and development, in the interests of rapid industrialization. Self-reliance is the theme now stressed, however, and steps have already been taken to give more emphasis to technical training and basic research. A major feature of any new program probably would be its stress on filling out the industrial base. Many of the more advanced projects contained in the original Soviet "aid" program might remain in a state of suspension during the initial phase of industrial recovery. In short, Communist China's hopes to achieve world power status this decade are no longer realistic, but China probably has enough capabilities to build a very respectable industrial establishment by Asian standards, once the general economic-political climate improves.

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Approved For Release 2002/07/12 : CIA-RDP79T01003A001300080001-8

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